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IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

No. 12070

CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff-Appellee,

v.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

Honorable WIN G. KNOCH, Judge Presiding.

BRIEF AND APPENDIX FOR PLAINTIFF-APPELLEE

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Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division

Honorable WIN G. KNOCH Judge Presiding.

PLAINTIFF-APPELLEE'S BRIEF

Statement of the Facts

This action is here on the appeal by the defendant, Kelly, from a judgment entered by the court below on April 29, 1957, holding an agreement dated June 3, 1944, between plaintiff, Consolidated, and Thomas C. Kelly, now deceased, to be invalid and unenforceable (D.'s App., pp. 30-31).* The action was initiated on February 20, 1956 (D.'s App., p. 1), by plaintiff's complaint for declaratory judgment (D.'s App., pp. 4-5), and came on before the court

* Defendant's brief and the appendix annexed thereto will be designated, respectively, as "D.'s Br." and "D.'s App." The appendix of plaintiff annexed hereto will be designated "Pl.'s App." Italics and brackets within quotes are ours throughout unless the contrary is indicated.

on the separate motions of defendant and of plaintiff for summary judgment (Pl.'s App., pp. A1, A3).

Substantially every fact pertinent to the issues here is found within the limits of the agreement of June 3, 1944 (D.'s App., pp. 6-13). The very few additional facts which are either necessary or helpful to decision are set forth in the affidavit of J. Edgar Kelly (D.'s App., pp. 14-15); that of Edward G. Kuhn (D.'s App., pp. 16-25); and that of James D. Bock (Pl.'s App., pp. A5-A9). There is no conflict between the parties as to the facts, as is shown by the fact that both parties, in their motions for summary judgment, asserted that "there is no genuine issue as to any material fact" (Pl.'s App., pp. A1, A3).

Notwithstanding this, defendant, in his brief here, repeatedly makes statements which are entirely without support in the record.* The facts which are pertinent, and which are in the record, are brief enough to warrant their recitation here.

By the agreement of June 3, 1944, Kelly granted plaintiff an exclusive license under a single patent—Kelly patent No. 2,171,572 of September 5, 1939—relating to a machine used to insert cotton wadding into the neck of a bottle and known as a "Cottoner" or "Kottoner".

The paragraphs of that agreement which are of primary importance here are Paragraphs 9 and 12 (D.'s App., pp. 10 & 11). By Paragraph 9 Kelly fixed the price at which plaintiff might sell not only machines made under the licensed patent but also machines *not* so made, and by Paragraph 12 it was provided that, if plaintiff failed "to secure

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* Thus, there is nothing in the record as to the reasons behind or the method of negotiating or executing the agreement of June 3, 1944, between plaintiff and Kelly or the agreement between plaintiff and Lakso (see D.'s Br., pp. 2-3, 12-13), or as to the amount of royalties paid Kelly (D.'s Br., p. 5), or as to any breach by plaintiff of the agreement of June 3, 1944, by selling at prices in excess of those set forth therein, or as to the fact that that agreement was drafted by plaintiff (D.'s Br., p. 16).

and maintain an exclusive license" under patents *not* owned or controlled or licensed by Kelly, plaintiff thereafter was precluded from manufacturing any machines except those of the licensed Kelly type.

In addition to these two paragraphs, Paragraph 4 provided for the payment to Kelly of a "commission" of 7½% on all of plaintiff's sales of machines made under two Lakso patents (D.'s App., pp. 7-8), and Paragraph 5 provided for the payment to Kelly of a "royalty" of 7½% on all of plaintiff's sales of machines made under the licensed—Kelly—patent (D.'s App., p. 8). The considerations recited for the agreement to pay "commissions" were the adjustment of all outstanding claims under an earlier agreement; plaintiff's release by Kelly from the obligation "to abstain from the manufacture and sale of any Cottoners other than those manufactured and accounted for under the Kelly patent aforesaid"; and Kelly's "granting" to plaintiff "of the right to manufacture" Lakso type machines (D.'s App., pp. 7-8).

Paragraph 6 provided for the assignment by plaintiff to Kelly of patent applications relating to "any improvements of a patentable order on the Kelly type machine" (D.'s App., p. 8).

The remaining paragraphs are relatively conventional and of little importance here.

Beyond the agreement, the only facts of any moment are that plaintiff obtained an exclusive license under the Lakso patents (D.'s App., pp. 15, 17 and 19-21); that "There is no relationship between Kelly and Lakso, and the Lakso type machines manufactured by Consolidated under the Lakso patents are materially different from the Kelly type machines manufactured by Consolidated under the Kelly patent" (D.'s App., p. 17); and that "In February and March 1956, this Lakso agreement was amended to provide that the said license to Consolidated would thereafter be non-exclusive, and that the requirement for the payment of royalties by Consolidated to Lakso would thereafter be discontinued" (D.'s App., pp. 17, 22-25).

Summary of Argument

Paragraph 9 of the agreement of June 3, 1944, between plaintiff and Kelly provides a maximum and a minimum price at which plaintiff may sell its Cottoners made under the licensed Kelly patent and also those made under the Lakso patents which were neither owned nor controlled by Kelly. The fixing of prices on a product which is not covered by a patent owned by the price fixer is contrary to the Sherman law and illegal. Therefore, while the fixing of prices of plaintiff's Kelly type Cottoners is unexceptionable, the extension of price fixing to Lakso type Cottoners is illegal, and this is true even though Paragraph 9 did not prescribe precise and definite prices but, instead, fixed only a floor and a ceiling price. And an illegal price fixing of this nature may not be severed from the rest of the agreement, but the entire agreement is affected and is invalid and unenforceable.

Paragraph 12 of that agreement provides that upon the happening of certain contingencies plaintiff shall be restricted to the manufacture of Kelly type Cottoners, alone. The contingency has occurred. It is unlawful to use a license under a particular patent as a lever to compel the licensee to refrain from dealing in any product not covered by the licensed patent. Paragraph 12 therefore is illegal and unenforceable.

Where an agreement, as here, contains unlawful price fixing and other provisions, the agreement is an integral whole, and the unlawful provisions cannot be severed, so the entire agreement is tainted and unenforceable.

Contested Issues

Plaintiff accepts defendant's statements I and II of the "Contested Issues" (D.'s Br., p. 8).

Propositions of Law Relied Upon

1. In the absence of a patent, a contract to fix prices is illegal *per se* under the Sherman Act.

Ethyl Gasoline Corp. v. *U. S.*, 309 U. S. 436, 456, 459 (1940);
United States v. *Line Material Co.*, 333 U. S. 287, 307-308 (1948).

2. Price fixing includes more than establishing uniform prices, and, specifically, it includes fixing maximum and minimum prices.

Allied Paper Mills v. *Federal Trade Commission*, 168 F. 2d 600, 607 (7th Cir., 1948);
Schine Theatres v. *United States*, 334 U. S. 110, 120 (1948);
Kiefer Stewart Co. v. *Seagram & Sons*, 340 U. S. 211, 213 (1951).

3. Illegal price fixing may not be severed from an agreement. Instead, the provisions of the agreement are integrated and the entire agreement is unenforceable.

Katzinger Co. v. *Chicago Mfg. Co.*, 329 U. S. 394, 401 (1947);
MacGregor v. *Westinghouse Co.*, 329 U. S. 402, 407 (1947).

4. It is illegal to use a patent to suppress competition in a non-patented article.

F. C. Russell Company v. *Comfort Equipment Corp.*, 194 F. 2d 592 (7th Cir., 1952), affirming 97 F. Supp. 784, 787 (N. D. Ill. E. D., 1951);
National Lockwasher Co. v. *George K. Garrett Co.*, 137 F. 2d 255, 256-257 (3rd Cir., 1943);
McCullough v. *Kammerer Corporation*, 166 F. 2d 759, 762 (9th Cir., 1948), cert. denied 335 U. S. 813 (1948).

Argument

This brief will consider, first, the questions of the illegality of Paragraphs 9 and 12 of the agreement of June 3, 1944, and, then, those parts of defendant's brief which have not already been answered.

Paragraph 9 of the Agreement of June 3, 1944, violates the Antitrust Laws and is Invalid.

With respect to Paragraph 9*, the District Court found (D.'s App., p. 28):

> "Said agreement further, in paragraph 9 thereof, prescribed the minimum and maximum prices at which Consolidated might sell cottoners made under either the Kelly or the unrelated Lakso patents thus constituting a fixing of prices by Kelly without patent or other statutory authorization."

Defendant apparently feels it necessary to establish the propriety of a licensor's fixing the price at which his licensee might sell the product made under *the patent of the license*, that is, under the Kelly patent (D.'s Br., pp. 15-16). But plaintiff has never questioned and does not now question this practice.

Paragraph 9, however, as the District Court held, went way beyond fixing the price at which plaintiff might sell Kelly type machines and also fixed the price at which plaintiff might sell Lakso machines.

While these Lakso machines are covered by patents, they are Lakso patents and Kelly had no interest in them and the

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* Paragraph 9 provides as follows: "It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing" (D.'s App., p. 10).

Kelly patent in no way affected them (D.'s App., p. 17; see also D.'s Br., pp. 12, 2). Consequently, so far as this action is concerned, the Lakso machines may be considered as though unpatented, and certainly as unprotected by the Kelly patent.

The applicable rule in such cases is firmly established. Its scope is well illustrated by statements of the Supreme Court in *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436 (1940), and *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

In the *Ethyl Gasoline* case the court stated that a patentee

> "may not, by virtue of his patent, . . . condition the license so as to control conduct by the licensee not embraced in the patent monopoly . . ." (309 U. S. 456)

and

> "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article, . . . or for the exploitation or promotion of a business not embraced within the patent" (309 U. S. 459).

To the same effect, in the *Line Material* case, the court said (333 U. S. 307-308):

> "In the absence of a patent or other statutory authorization, a contract to fix or maintain prices in interstate commerce has long been recognized as illegal *per se* under the Sherman Act. This is true whether the fixed price is reasonable or unreasonable . . .
>
> "It is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly."

Here Kelly did "condition" the agreement of June 3, 1944, "so as to control conduct by [plaintiff] not embraced in the [Kelly] patent monopoly". But that patent, in the

words of the *Line Material* decision, does not give Kelly (or defendant here) "any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly".

A machine, made under the Lakso patents and admittedly not infringing the Kelly patent (D.'s Br., pp. 12, 2), certainly is "beyond the limits of the [Kelly] patent monopoly". Therefore, Paragraph 9 is "illegal *per se* under the Sherman Act".

See also, *U. S.* v. *Bausch & Lomb Co.*, 321 U. S. 707, 720 (1944); *United States* v. *Gypsum Co.*, 333 U. S. 364, 400 (1948); *United States* v. *New Wrinkle, Inc.*, 342 U. S. 371, 377 (1952).

And the illegality of Paragraph 9 is in no way affected by the fact that, instead of fixing precise or definite prices, that paragraph established a floor and a ceiling within which plaintiff's sales had to be made. This is established in this Circuit as in other federal courts. Thus, in *Allied Paper Mills* v. *Federal Trade Commission*, 168 F. 2d 600 (1948), this Court said it was "the clear law" that

> "price fixing as an unlawful act includes any tampering with or manipulation of prices. It includes more than the mere establishment of uniform prices, and it is not important that the prices fixed were not fixed in the sense that they were uniform and inflexible" (168 F. 2d 607).

So also *National Lead Company* v. *Federal Trade Commission*, 227 F. 2d 825, 833-834 (7th Cir., 1955); *U. S.* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150, 222 (1940); *Schine Theatres* v. *United States*, 334 U. S. 110, 120 (1948); *Kiefer-Stewart Co.* v. *Seagram & Sons*, 340 U. S. 211, 213 (1951).

Not only is Paragraph 9 illegal, but that illegality goes to the heart of and vitiates the *entire* contract (*Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394, 401 (1947); *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402, 407 (1947)). In the *Katzinger* case the court not only held against sever-

ability, but it specifically held unenforceable a contract generally like that here, saying (329 U. S. 401):

> "Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it."

Defendant in its brief here makes very little effort to come to grips with the clear illegality of Paragraph 9. He says that the agreement of June 3, 1944, "was drafted by the plaintiff, and that Kelly was induced to sign it" and "This mistake [the fixing of prices on Lakso machines], if it was a mistake, was made by the plaintiff—not by Kelly—and the plaintiff should not now be permitted to convert its own error to its own gain" (D.'s Br., p. 16).

There is not a word in this record indicating who "drafted" the agreement or who "induced" whom to sign it.* The fact is it was signed and it constituted more than a "mistake". It was, as has been shown, a positive illegality. But, defendant attempts to avoid its effect by saying that "Plaintiff does not allege that Kelly at any time dictated prices on any machine or that it abided by the prices set forth in the contract of June 3, 1944", relying on *Metals Disintegrating Co.* v. *Reynolds Metals Co.*, 107 F. Supp. 105 (D. Del., 1952) and *Campbell* v. *Mueller*, 159 F. 2d 803 (6th Cir., 1947) as assumedly lending some support to its argument (D.'s Br., pp. 17-18).

The law, however, is to the contrary, and the cases relied on by defendant are readily distinguishable. The correct rule was stated by the Supreme Court in *United States* v. *Trenton Potteries*, 273 U. S. 392, 402 (1927):

> "The trial court instructed the jury in substance that if it found that the respondents did conspire to

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* It is impossible to believe that Paragraph 9 was ever sponsored by plaintiff.

> restrain trade as charged in the indictment, then it was immaterial whether the agreements were ever actually carried out, whether the purpose of the conspiracy was accomplished in whole or in part, or whether an effort was made to carry the object of the conspiracy into effect. The court below recognized that this charge was a correct statement of the general proposition of law that the offensive agreement or conspiracy alone, whether or not followed by efforts to carry it into effect, is a violation of the Sherman Law. *Nash* v. *United States, supra.* . . ."

So also, *United Shoe Mach. Co.* v. *United States,* 258 U. S. 451, 458 (1922); *American Tobacco Co.* v. *U. S.,* 328 U. S. 781, 811 (1946); *F. C. Russell Company* v. *Consumers Insulation Company,* 226 F. 2d 373, 376 (3rd Cir., 1955).

The *Metals Disintegrating* case was not an action to set aside an unenforceable agreement. Instead, it was an action for patent infringement, and the question presented was whether the patent owner had purged itself of an admitted illegality. There, a license agreement had fixed prices on an unpatented product. Prior to the commencement of litigation, however, the parties recognized this illegality, and the licensor attempted to correct it, but the licensee refused to join in such correction. Thereafter, the agreement and other similar agreements were terminated, and the court held that there had been a complete purge (107 F. Supp. 107-108).

The *Campbell* case is to the same effect. It, too, was an action for patent infringement (159 F. 2d 803-804), and there, too, certain price fixing provisions in a license were challenged but, as in the *Metals Disintegrating* case, the challenged provision had been canceled (159 F. 2d 806) and the court held that the misuse had been purged (159 F. 2d 807).

These cases haven't the slightest effect upon the prevailing rule as set forth in the *Trenton Potteries* case.

Paragraph 12 of the Agreement of June 3, 1944, violates the Antitrust Laws and is Invalid.

The court below, with respect to Paragraph 12*, found (D.'s App., pp. 28-29):

> "8. Said agreement, in paragraph 12 thereof, further provided that if Consolidated failed to secure and maintain an exclusive license under said Lakso patents, it would be required to confine its manufacture of cottoners exclusively to machines of the Kelly type and to pay a royalty thereon in the amount of 15%.
>
> "9. Consolidated, in fact, did fail to maintain an exclusive license under said Lakso patents.
>
> "10. The recited provision of said paragraph 12 is a restriction on Consolidated's free right to manufacture and sell devices over which Kelly had no control and with respect to which he had no patent or other right."

Paragraph 12, in restricting plaintiff in the products it can make and sell, is clearly unlawful, as this Court and many others have time and again held. Thus, in *F. C. Russell Co.* v. *Comfort Equipment Corp.*, 194 F. 2d 592 (1952), this Court affirmed the District Court in holding unlawful a provision in plaintiff's distributor contracts whereby the latter agreed not to merchandise or offer for sale any competitive merchandise. In the lower court's decision, 97 F. Supp. 784 (N. D. Ill. E. D., 1951), it was said (97 F. Supp. 787):

> "A patentee under a valid patent has a monopoly in the manufacture and sale of the patented product.

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* Paragraph 12 provides as follows: "It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph" (D.'s App., p. 11).

> One monopoly is enough. If he attempts to limit competition further by such tying in clauses as we have here, the courts will not protect his monopoly."

A similar conclusion was reached by the Court of Appeals for the Third Circuit in the related case of *F. C. Russell Company* v. *Consumers Insulation Company*, 226 F. 2d 373 (1955).

Another and much cited case which is squarely in point is *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255 (3rd Cir., 1943). There the court held unlawful an agreement not to deal in competing products. The decision adverted to that line of Supreme Court decisions holding generally that "the patentee cannot use his patent monopoly to force upon customers his brand of a non-patented article to be used by the customer in connection with the patented article sold or leased" (137 F. 2d 256), and continued (137 F. 2d 256-257):

> "The patentee in this case is not selling any unpatented goods under a tying-in clause to the licensee. But it is, as the facts are alleged by the defendant, using its patent monopoly to suppress the manufacture of possible competing goods not covered by its patent . . . We think the instant case, on the facts as the defendant represents them, falls within the principle of the cases cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition.
>
> • • •

> "We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear."

Still another case of interest here is *McCullough* v. *Kammerer Corporation*, 166 F. 2d 759 (9th Cir., 1948), cert. denied 335 U. S. 813 (1948). There, too, a covenant by a licensee not to deal in articles competitive with the licensed article was held illegal and there, as here, the licensee was an exclusive licensee (166 F. 2d 762). In reaching this conclusion, the court said (166 F. 2d 762):

> "The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public's interest to use the patent to suppress such competition."

So also, *United States* v. *Crown Zellerbach Corporation*, 141 F. Supp. 118, 126-127 (N. D. Ill., 1956); *Park-In Theatres* v. *Paramount-Richards Theatres*, 90 F. Supp. 730 (D. Del., 1950), affd. 185 F. 2d 407 (3rd Cir., 1950); *Chamberlin* v. *Clark Bros.*, 96 F. Supp. 498 (S. D. Cal. C. D., 1951); *Chiplets Inc.* v. *June Dairy Products Co.*, 89 F. Supp. 814 and 114 F. Supp. 129 (D. N. J., 1950 and 1953).

In the light of these cases, there can be no question that Kelly's requirement that plaintiff should not manufacture and sell Cottoners competitive with Kelly Cottoners is illegal.

Again defendant's brief fails to meet the issue of illegality. And again it fails to even refer to the controlling cases. It does make the statement, in entire disregard of those cases, that "there is nothing illegal in a license agreement which requires that the licensee shall not manufacture a competing machine" (D.'s Br., p. 23) and assumes to find support for this statement in *Campbell* v. *Automatic Die & Products Co.*, 162 Ohio 321, 123 N. E. 2d 401 (Sup. Ct. Ohio,

1954); *Steffen* v. *W. J. Schoenberger Co.*, 90 F. Supp. 710 (N. D. Ohio E. D., 1950) and Toulmin's *Antitrust Laws* (Vol. 1, p. 272, copyright 1949).

In the *Campbell* case the assertion of illegality was based solely on an asserted violation of Section 3 of the Clayton Act (123 N. E. 2d 403-404), and that section requires, to establish illegality, not only the doing of a particular act but also that the doing be accompanied by a particular effect. Thus, Section 3 forbids a sale on the condition that the purchaser shall not use competitive goods

> "where the effect of such . . . sale . . . may be to substantially lessen competition or tend to create a monopoly in any line of commerce" (15 U. S. C. § 14).

There is no similar or equivalent provision in the Sherman Act—pertinent here—and there is no requirement, under that law, that an "effect" be spelled out. Thus, the rule of that case is irrelevant here. However, it is interesting that the Ohio court suggested that

> "If Automatic wished to test the legality of the contract, it could and should have brought an action to rescind on the ground of illegality . . ." (123 N. E. 2d 405),

which, of course, is precisely what the plaintiff did in the instant case.

In the *Steffen* case the court held that there were no provisions in the agreement restraining the licensee from the use of competing products. However, the court went on to say that, if such provisions were there, they would "merely prevent recovery" but "would not convert a seemingly valid patent license into an illegal and unenforceable contract" (90 F. Supp. 711). Apparently, that court was not familiar with the rule precluding severability where licensing provisions violated the antitrust laws (*ante*, pp. 8-9).

The quotation from Toulmin (D.'s Br., pp. 23-24) shows on its face that it has no application to the present situation.

This case is not concerned with "the liberty of an individual". On the contrary, it is very much concerned with "protect[ing] the public against unlawful restraints of trade and commerce", which Toulmin says is "the object of the [Sherman] Act".

The Defendant's Brief.

The defendant has set up in its argument a number of straw men about which there is neither dispute nor basis for dispute.

Thus, it says that "The Burden of Showing the Illegality of a Contract is Upon the Party Asserting It, and It Is Not Sufficient Merely to Create Confusion and Suggest Doubt" (D.'s Br., pp. 11-14).

No one in this case challenges that proposition. And plaintiff has fully sustained its burden in showing the illegality of the provisions of Paragraphs 9 and 12 of the agreement of June 3, 1944. Defendant uses its argument on this score, however, as a vehicle for its charge (D.'s Br., p. 13) that "Nowhere in the complaint or in any other pleading does the plaintiff explain" the allegation of the complaint that the agreement "is contrary to law and is unenforceable because it contains provisions which are in violation of the antitrust laws, and that enforcement of the agreement would result in a restraint of trade and an illegal monopoly" (D.'s App., pp. 4-5).

Defendant's objection, made for the first time in this Court, not only is tardy but is utterly unsubstantial. The complaint is "a short and plain statement of the claim showing that the pleader is entitled to relief" in precise accord with Rule 8(a) and 8(e) of the *Rules of Civil Procedure*. In the court below defendant appears to have been fully informed as to the nature of the complaint. In that court defendant did not move for a more definite statement under Rule 12(e) F. R. C. P. Instead, he filed his motion for summary judgment under Rule 56(b) and (c), assert-

ing "that the complaint herein . . . shows that there is no genuine issue as to any material fact, and that the defendant is entitled to the judgment as a matter of law" (Pl.'s App., p. A1).

Defendant also asserts here that "A License Is Not Unenforceable Because Royalties Were Based on Total Sales Regardless of Whether the Patent Was Used" (D.'s Br., pp. 18-20).

There is no issue of this sort in this case, and defendant is entirely in error in its statement that "Plaintiff contends, and the District Court found, that it was illegal for Kelly to receive 7½ per cent of the sale price of machines using the Lakso patent" (D.'s Br., p. 18).

Plaintiff has never denied the validity, standing alone, of the provision which gave Kelly a right to a commission on Lakso machines (D.'s App., pp. 4 & 5), and the District Court did not hold that Kelly's receipt of such commissions was illegal (D.'s App., pp. 26-30).

Another false issue is suggested by defendant's argument that "A Covenant in a License Agreement Requiring the Licensee to Assign Improvement Patents to the Licensor Is Legal and Enforceable" (D.'s Br., pp. 20-21).

The defendant admits that "Plaintiff makes no specific allegation" that the provision (Paragraph 6 of Agreement of June 3, 1944; D.'s App., p. 8) assigning improvements is illegal, but it says that "the District Court implied in its findings of fact . . . that such clause was illegal". Plaintiff made no allegation, specific or otherwise, that such a provision was illegal, and the court did not imply any illegality. Its only finding with respect to this was that it and various other provisions "are integrated considerations for the license granted and are not severable" (Finding No. 11, D.'s App., p. 29).

Finally, defendant argues that "It was Error for the District Court to Find Facts and Enter Conclusions of

Law When No Evidence Was Presented or Heard to Support Such Findings" (D.'s Br., pp. 24-25). Under this heading defendant urges that there is no support in the record here for the court's finding "that the Kelly machine and Kelly patent were unrelated to the Lakso machine or Lakso patents" (D.'s Br., p. 24) and for its finding "that Kelly had no right to prescribe the course of action or to control any other right of the plaintiff with respect to the Lakso machine or patents" (D.'s Br., pp. 24-25).

Both of these contentions are contrary to the fact. On the first point, the Kuhn affidavit states that

> "There is no relationship between Kelly and Lakso, and the Lakso type machines manufactured by Consolidated under the Lakso patents are materially different from the Kelly type machines manufactured by Consolidated under the Kelly patent" (D.'s App., p. 17).

This statement directly supports the court's finding. Its accuracy has never been challenged by the defendant. To the contrary, the defendant in its brief here in essence admits the accuracy of Kuhn's statement in its statement that

> "the plaintiff discovered that a man by the name of Eino E. Lakso, of Fitchburg, Massachusetts, had obtained later dated patents on another machine designed to insert cotton into bottles of a different type, which patents did not infringe the Kelly patent" (D.'s Br., p. 12; see also p. 2).

The second finding complained of—that Kelly had no right to prescribe the course of action of the plaintiff with respect to the Lakso machine or patents—is supported by the provisions of the agreement of June 3, 1944, which assumed to give Kelly such a right (see Paras. 4 & 12, D.'s App., pp. 7-8 & 11), and by the obvious conclusory fact that that agreement could not effectively confer a right which Kelly never had.

Conclusion

There was no dispute below as to any fact, and both parties attested that there was "no genuine issue as to any material fact". Consequently, this was a proper case for summary judgment. The agreement of June 3, 1944, in Paragraphs 9 and 12, was clearly and unambiguously contrary to law and unenforceable. Therefore, the judgment below should be affirmed.

Respectfully submitted,

JAMES P. HUME,
38 South Dearborn Street,
Chicago 3, Illinois.
Attorney for CONSOLIDATED
PACKAGING MACHINERY CORPORATION.

Of Counsel:

JOHN VAUGHAN GRONER,
JAMES D. BOCK,
20 Exchange Place,
New York 5, N. Y.

September 15, 1957.

PLAINTIFF'S APPENDIX

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IN THE

District Court of the United States

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Plaintiff,

vs.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,

Defendant.

Civil Action No. 56 C 344

Motion for Summary Judgment

The defendant, Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased by J. Edgar Kelly and Wilfred S. Stone his attorneys, hereby moves the court to enter summary judgment for the defendant in accordance with the provisions of Rule 56(b) and (c) of the Rules of Civil Procedure, for the reason that the complaint herein together with the affidavit of J. Edgar Kelly hereto attached and marked defendant's Exhibit 1 and the exhibit attached to said affidavit marked defendant's Exhibit 2 shows that there is no genuine issue as to any material fact, and that the defendant is entitled to the judgment as a matter of law.

A Memorandum in support of this motion is filed herewith.

RICHARD J. KELLY, Executor of the Estate of Thomas C. Kelly, Deceased

By WILFRED S. STONE
J. EDGAR KELLY
Attorneys for Defendant
111 W. Washington St.
Chicago 2, Illinois

Motion for Summary Judgment

Receipt of copies of the foregoing Motion for Summary Judgment and the affidavit of J. Edgar Kelly attached thereto, together with Memorandum In Support of Motion is acknowledged this 16th day of March, 1956.

JAMES P. HUME

James P. Hume
38 So. Dearborn Street
Chicago 3, Illinois
Attorney for Plaintiff

[Defendant's Exhibit 1, referred to above, is reproduced in defendant's Appendix, pages 14 and 15. Defendant's Exhibit 2, referred to above, is reproduced in defendant's Appendix, pages 6 through 13.]

IN THE

DISTRICT COURT OF THE UNITED STATES

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION, Plaintiff, *v.* RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased, Defendant.	Civil Action No. 56 C 344

Motion for Summary Judgment

The plaintiff, CONSOLIDATED PACKAGING MACHINERY CORPORATION, by James P. Hume, its attorney, hereby moves the Court to enter summary judgment for the plaintiff in accordance with the provisions of Rule 56(a) and (c) of the Rules of Civil Procedure, on the ground that the Complaint, the agreement of June 3, 1944, between plaintiff and Thomas C. Kelly, Deceased, marked "Defendant's Exhibit 2", and the affidavit of J. Edgar Kelly, dated March 16, 1956, marked "Defendant's Exhibit 1", show that there is no genuine issue as to any material fact and that the plaintiff is entitled to judgment as a matter of law.

Motion for Summary Judgment

A memorandum in support of this motion will be filed on May 1, 1956, in accordance with the stipulated schedule for briefs filed of even date herewith.

Respectfully submitted,

James P. Hume
James P. Hume
38 S. Dearborn St.,
Chicago 3, Illinois
Attorney for Plaintiff.

April 5, 1956

Receipt of copies of the foregoing Motion for Summary Judgment is acknowledged this 5th day of April, 1956.

J. Edgar Kelly by A. J.

J. Edgar Kelly
111 W. Washington St.,
Chicago 2, Illinois
Attorney for Defendant.

IN THE

DISTRICT COURT OF THE UNITED STATES

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff,

v.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,
Defendant.

Civil Action
No. 56 C 344

Affidavit

STATE OF NEW YORK }
COUNTY OF NEW YORK }

JAMES D. BOCK, being duly sworn, deposes and says that he is of counsel for the Plaintiff herein and has knowledge of the facts hereinafter set forth:

1. On May 25, 1956, and subsequent to the filing of Plaintiff's "Brief in Support of Consolidated's and in Opposition to Kelly's Motion for Summary Judgment", affiant received a copy of a letter dated May 23, 1956 from Deming, Kelly and Kane by J. Edgar Kelly, addressed to Consolidated Packaging Machinery Corporation, attention of Mr. E. G. Kuhn. A copy of said letter is attached and marked "Plaintiff's Exhibit 1".

2. On June 4, 1956, Mr. Kuhn replied to said letter of May 23, 1956 and a copy of such reply was received by affiant

on June 5, 1956. A copy of the reply is attached hereto and marked "Plaintiff's Exhibit 2".

3. The enclosures referred to in "Plaintiff's Exhibit 2" constituting copies of Consolidated's applications Serial Numbers 474,455 filed December 10, 1954 and 483,377 filed January 21, 1955, are attached hereto and marked "Plaintiff's Exhibits 3 and 4", respectively.

JAMES D. BOCK

Subscribed and sworn to before me this 6th day of June, 1956.

JOHN E. GROTH
Notary Public, State of New York
No. 30-1590350
Qualified in Nassau County
Cert. filed with New York Co. Clerk
Term expires March 30, 1957

Plaintiff's Exhibit 1

Central 6-4378

DEMING, KELLY & KANE
Attorneys at Law
111 West Washington Street
Chicago 2

May 23, 1956

Consolidated Packaging
Machinery Corporation
1400 West Avenue
Buffalo 13, New York

Attention of Mr. E. G. Kuhn

Gentlemen:

As attorneys for Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased, we hereby request that you immediately disclose to us the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956, which affidavit is attached to the brief filed on May 1, 1956 in the case of Consolidated etc. v. Kelly, case number 56 C 344.

This request is made in order that we may determine whether these inventions are improvements on the Kelly-type machine, as provided in paragraph 6 of the agreement of June 3, 1944.

Very truly yours,

DEMING, KELLY & KANE

By /s/ J. Edgar Kelly

JEK:aj

Copy to:

MR. JAMES P. HUME
38 South Dearborn St.
Chicago 3, Illinois

MR. JOHN V. GRONER
20 Exchange Place
New York 5, N. Y.

Plaintiff's Exhibit 2

CONSOLIDATED PACKAGING MACHINERY CORP.
1400 West Avenue
Buffalo 13, N. Y.

June 4, 1956

Mr. J. Edgar Kelly
Deming, Kelly & Kane
111 West Washington Street
Chicago 2, Illinois

Dear Mr. Kelly:

I have your letter of May 23 in which you request that we "immediately disclose to (you) the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956 . . ."

The agreement of June 3, 1944 between Thomas C. Kelly and Consolidated Packaging Machinery Corporation provides in paragraph 6 that, if Consolidated "shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor . . ."

Consolidated has heretofore prosecuted to issue three patents, viz., Nos. 2,501,770; 2,596,813 and 2,691,473, and at the present time has two pending applications, viz. applications Serial Nos. 474,455 filed December 10, 1954 and 483,377 filed January 21, 1955. These applications are the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956. Since neither the issued patents nor the pending applications related to "improvements of a patentable order on the Kelly type machine" but instead relate to a Cottoner of radically different type, there is no obligation to Consolidated to disclose to you anything contained therein.

Plaintiff's Exhibit 2

Notwithstanding this fact, Consolidated desires, in this as in its other relations with you, to maintain an attitude of complete frankness. Therefore, I enclose for your information but *not* in compliance with any provisions of the contract, copies of the named applications. It is my understanding that you have already received copies of the issued patents.

Yours very truly,

CONSOLIDATED PACKAGING MACHINERY CORP.

E. G. Kuhn, President

CC. J. D. Bock
T. E. Tate

RH